

Message Text

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C O N F I D E N T I A L MOSCOW 12089

USDOC FOR BEWT/DOWNEY AND BEWT/TDAD/PLANAGAN

E.O. 11652: GDS

TAGS: ETRD, UR, US EMIN

SUBJ: POSSIBLE US PARTICIPATION IN SOVIET ALUMINUM PROJECT

REF: (A) STATE 189594; (B) MOSCOW 10913; (C) MOSCOW 10557

1. SUMMARY - MFT OFFICIAL GAVE COMOFFS RUNDOWN ON ALUMINUM PROJECT WHICH VARIES CONSIDERABLE FROM PREVIOUS INFORMATION. DISCREPANCIES RAISE FURTHER QUESTION ABOUT MFT'S MOTIVES. ALCOA DEL DUE HERE IN EARLY OCOTBER FOR NEGOTIATIONS. END SUMMARY

2. ON AUGUST 19 COMATT AND COMOFF CALLED ON S.V. TSUKANOV, DEPUTY CHIEF, MAIN ADMINISTRATION FOR COMPENSATION PROJECTS AND IMPORTATION OF MACHINERY AND EQUIPMENT FROM CAPITALIST COUNTRIES, MINISTRY OF FOREIGN TRADE, TO EXPLORE SOVIET INTENTIONS RE FOREIGN PARTICIPATION IN MAJOR ALUMINUM PROJECT DESCRIBED REFTELS. THEY WERE TREATED TO EXPLANATION WHICH RAISED MORE QUESTION THAN IT ANWWERED.

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3. ACCORDING TO TSUKANOV, MINISTRY OF NON-FERROUS METALLURGY PLANNED TWO YEARS AGO TO BUILD TWO MAJOR ALUMINUM COMPLEXES -- ONE WITH ALUMINA REFINERY AT PETROZAVODSK AND ALUMINUM SMELTER AT SAYANO-SHUSHENSKOYE, THE OTHER WITH REFINERY AT NIKOLAYEV AND SMELTER ADDED TO EXISTING REDUCTION PLANT AT BRATSK. KAISER HAD BEEN DISCUSSING FIRST PROJECT, BUT SCARCITY OF RESOURCES FORCED ITS POSTPONEMENT TO END OF 1976-1980 FIVE YEAR PLAN. SECOND PROJECT DID NOT INTEREST KAISER BECAUSE COMPANY WAS NOT SURE ITS TECHNOLOGY COULD HANDLE GUINEAN BAUXITE DESTINED FOR REFINERY. ALCOA WAS INTERESTED, HOWEVER, FOR SIMILAR ORES WERE ALREADY BEING PROCESSED USING ITS TECHNOLOGY.

4. JULY VISIT OF ALCOA DELEGATION HAD POSITIVE RESULTS, TSUKANOV EXPLAINED. VICE PRESIDENT HATFIELD LEFT IMPRESSED WITH USSR ALUMINUM INDUSTRY, WHICH HE CONSIDERED ON PAR WITH NORTH AMERICAN, AND ALCOA IS NOW PREPARING FULL TECHNICAL AND FINANCIAL PROPOSAL, WHICH SOVIETS EXPECT SEPTEMBER 15 SO THAT NEGOTIATIONS CAN BEGIN IN MOSCOW AROUND OCTOBER 1. COMPANY'S ROLE MAY INCLUDE SUPPLYING MACHINERY AND ENGINEERING/KNOW-HOW OR SIMPLY LATTER. ALCOA WOULD BE PAID IN PRODUCT (120,000 TONS/YEARS FOR 5-6 YEARS) FROM COMPLEX. AS FINANCIAL ARRANGEMENTS HAVE BEEN STICKING POINT IN OTHER NEGOTIATIONS, SOVIETS RESOLVED TO TACKLE THIS PROBLEM EARLY BY SENDING RAZNOIMPORT CHAIRMAN I.A. RUSSOV TO PITTSBURGH LAST WEEK FOR PRELIMINARY TALKS. SPEED IS IMPORTANT SINCE CONSTRUCTION WORK HAS ALREADY BEGUN AT NIKOLAYEV.

5. TSUKANOV CLAIMED THAT PECHINEY HAD BEEN INFORMED BY SOVIETS OF DISCUSSIONS WITH BOTH KAISER AND ALCOA.

HE ALSO MAINTAINED THAT IF SOVIETS EVENTUALLY REACHED AGREEMENT WITH PECHINEY, LATTER WOULD BE OBLIGED TO PURCHASE SOME OF THE REQUIRED TECHNOLOGY FROM ALCOA.

6. COMOFFS CHALLENGED TSUKANOV ON SEVERAL POINTS WHICH SEEMED AT CONSIDERABLE VARIANCE FROM PREVIOUS CONFIDENTIAL

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INFORMATION. WHEN COMOFF POINTED OUT THAT KAISER WAS HARDLY DISINTERESTED IN PROJECT BUT WAITING NOW FOR PROMISED TELEX (REF A), TSUKANOV REPLIED THAT NO TECHNICAL QUESTIONS REMAIN AND THAT PROBLEM IS ALUMINUM PRICE. ASKED AGAIN ABOUT LOCATION OF SMELTER, TSUKANOV REPEATED IT WOULD BE EXPANSION OF EXISTING BRATSK REDUCTION PLANT (I.E. NOT NEW FACILITY AT SAYANO-SHUSHENSKOYE AS ALCOA DEL UNDER-

STOOD). COMOFF NOTED ALCOA'S UNDERSTANDING THAT PROJECT WOULD BE UNDERTAKEN ON CASH., NOT COMPENSATION BASIS, BUT TSUKANOV DID NOT RESPOND.

7. COMMENT - TSUKANOV WAS ON LEAVE WHEN ALCOA DEL HERE, BUT ALUMINUM PORJECT FALLS SQUARELY WITHIN HIS RESPONSIBILITIES AND HE SHOULD BE ON TOP OF ANY SERIOUS PREPARATORY WORK IN PROGRESS AT MFT. HIS APPARENTLY GARBLED ACCOUNT, COUPLED WITH SLOPPY PREPARATIONS FOR KAISER VISIT (MOSCOW 8444), LEADS US TO QUSTION AGAIN WHETHER SOVIETS NEGOTIATING IN GOOD FAITH. IF PECHINEY HAS CONTRACT SEWN UP, MFT CAN USE US FIRMS' COMPETING POSALS AS BARGAINING LEVES TO IMPROVE ITS TERMS. IF SOVIETS HAVE DECIDED TO BUILD COMPLEX THEMSELVES, PROPOSALS ARE FINE SOURCE OF FREE TECHNOLOGY. WE CONSIDER KAISER'S WAIT-AND-SEE TACTICS ENTIRELY APPROPRIATE UNDER THESE CIRCUMSTANCES.

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